

Message Text

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SUBJECT: GREECE: 1977 ECONOMIC PROJECTIONS

REF: A) ATHENS 13249; B) ATHENS 11920; C) ATHENS 13125

1. AS 1976 DRAWS TO A CLOSE, KEPE AND BANK OF GREECE
ECONOMISTS HAVE GIVEN US THEIR PRELIMINARY FORECASTS OF
WHAT THE ECONOMY MAY LOOK LIKE IN 1977. HOWEVER, SINCE
MAJOR UNCERTAINTIES STILL EXIST IN THE INTERNATIONAL
ECONOMIC SPHERE, PARTICULARLY THE MAGNITUDE OF OPEC OIL
PRICE INCREASES, THESE ESTIMATES ARE STILL TENTATIVE AND
UNOFFICIAL.

2. GROWTH AND INFLATION. AT THIS JUNCTURE, IT APPEARS
THAT THE ECONOMY WILL CONTINUE ALONG ITS MODERATE GROWTH
PATH WITH A FIVE-SIX PERCENT INCREASE IN REAL GNP. THE
TARGET INFLATION RATE IS 10 PERCENT, BUT IF OIL PRICES
RISE BY MORE THAN 10 PERCENT, A RATE OF 12-13 PERCENT IS
MORE LIKELY. ALTHOUGH THE GOG WAS ABLE TO HOLD THE
CPI INCREASE TO AROUND 11 PERCENT THIS YEAR, AN ACCELERATION
OF THE WPI AND EXPANSION OF THE MONEY SUPPLY BEYOND
TARGETED RATES PORTEND SOME RETURN OF INFLATIONARY
PRESSURES. THUS THE BANK OF GREECE INTENDS TO TIGHTEN
ITS MONETARY POLICIES SOMEWHAT NEXT YEAR. IN PARTICULAR
IT WILL TRY TO NEUTRALIZE THE INFLATIONARY IMPACT OF THE
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HEAVY FOREIGN EXCHANGE DEPOSIT INFLOWS. FISCAL POLICY

HAS ALSO TURNED LESS EXPANSIONARY, WITH AN 11 PERCENT DROP IN THE DOMESTICALLY FINANCED PORTION OF THE DEFICIT (TO 31.7 BILLION DRACHMAS), AND THE POSSIBILITY THAT PART OF THIS WILL BE FINANCED BY BOND SALES RATHER THAN INFLATIONARY BORROWING FROM THE CENTRAL BANK.

3. OVER THE LONGER TERM, THE DIRECTOR GENERAL OF KEPE TOLD US THAT THE (AS YET UNPUBLISHED) FIVE YEAR PLAN PROJECTS AVERAGE ANNUAL REAL GROWTH FROM 1976-80 AT 6.5 PERCENT, WITH A SIX PERCENT AVERAGE ANNUAL PRICE INCREASE. (THE LATTER WE BELIEVE WILL BE DIFFICULT TO ATTAIN).

4. BALANCE OF PAYMENTS; FOR 1977, THE BANK OF GREECE HAS MADE SOME VERY TENTATIVE BALANCE OF PAYMENTS PROJECTIONS ASSUMING A GNP REAL GROWTH RATE OF FIVE PERCENT, A STABLE DRACHMA, AND CONSTANT OIL PRICES. UNDER THESE ASSUMPTIONS, THE CURRENT ACCOUNT DEFICIT WOULD REMAIN BETWEEN \$1-1.2 BILLION BECAUSE THE INEVITABLE INCREASE IN THE TRADE DEFICIT WILL BE OFFSET BY RISING EMIGRANT REMITTANCES AND RECEIPTS FROM TOURISM. IMPORTS ARE EXPECTED TO INCREASE BY 10-12 PERCENT AROUND \$6 BILLION; EXPORTS BY 15 PERCENT TO AROUND \$2.6 BILLION; TOURISM BY 25 PERCENT TO OVER \$1 BILLION; AND EMIGRANT REMITTANCES BY ABOUT 15 PERCENT TO OVER \$1 BILLION. PRIVATE CAPITAL INFLOWS, PARTICULARLY FOREIGN EXCHANGE DEPOSITS BY EMIGRANTS AND THE SHIPPING SECTOR, SHOULD ALSO CONTINUE TO GROW, EVEN IF THE TREND TOWARDS NET IMMIGRATION CONTINUES, AS WORKERS RETURNING FROM ABROAD WILL BRING WITH THEM THEIR CONSIDERABLE SAVINGS (E.G., OVER FIVE BILLION DM DEPOSITS WITH GERMAN BANKS). DEBT SERVICE PAYMENTS, WHICH WILL BE AROUND \$450 MILLION THIS YEAR (AMORTIZATION AND INTEREST), WILL BE \$100 MILLION HIGHER NEXT YEAR, BUT SHOULD BEGIN TO DECLINE IN 1978 AS GREECE IMPROVES THE TERM STRUCTURE OF ITS DEBT. OFFICIAL BORROWING IS EXPECTED TO REMAIN IN THE RANGE OF \$300-350 MILLION FOR 1977. IF OIL PRICES RISE BY 10 PERCENT, THIS COULD ADD AS MUCH AS \$100 MILLION TO THE CURRENT ACCOUNT DEFICIT AND THUS THE FINANCING GAP.

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5. OVER THE PERIOD OF THE FIVE YEAR PLAN, KEPE PROJECTS THAT IMPORTS WILL RISE BY AN AVERAGE ANNUAL 9.5 PERCENT IN VOLUME AND 16-17 PERCENT IN VALUE; EXPORTS BY 13 PERCENT IN VOLUME AND 20 PERCENT IN VALUE; TOURISM BY 20 PERCENT; SHIPPING RECEIPTS BY THE PROJECTED INCREASE IN WORLD TRADE, I.E., EIGHT PERCENT; EMIGRANT REMITTANCES WILL KEEP PACE WITH AVERAGE WAGE INCREASES IN GERMANY; AND THE CURRENT ACCOUNT DEFICIT WILL REMAIN AT THE

ONE BILLION DOLLAR LEVEL. IF THIS IS ACHIEVED, IT WOULD
BE QUITE FAVORABLE, BECAUSE WITH INFLATION AND THE
GROWTH RATE, ONE BILLION DOLLARS WILL MEAN AN EVER-DECLIN-
ING PROPORTION OF GNP TO BE FINANCED. THESE PROJECTIONS
ASSUME PETROLEUM IMPORTS WILL DECREASE IN VOLUME
EVEN AS THE PRICE RISES, DUE TO THE DEVELOPMENT OF ALTER-
NATE AND INDIGENOUS ENERGY RESOURCES, AS SPELLED OUT IN
THE PLAN. DEPT SERVICING IS ASSUMED TO REMAIN AT LESS
THAN TEN PERCENT OF GROSS CURRENT ACCOUNT RECEIPTS AND
FOREIGN BORROWING IS EXPECTED TO REMAIN CONSTANT, I.E.,
\$300-400 MILLION OR LESS, DEPENDING ON PRIVATE INVESTMENT
INFLOWS.

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